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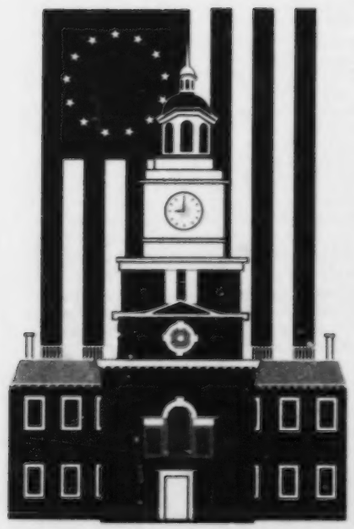
Social Security for Members of the Clergy and Religious Workers

For use in preparing
1990 Returns



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Introduction

Social security tax is collected under two systems. Under the Federal Insurance Contributions Act (FICA), part of the tax is paid by the employee and the other part is paid by the employer. Under the Self-Employment Contributions Act (SECA), the self-employed person pays all the tax (self-employment tax). No earnings are subject to both systems.

This publication covers several issues relating to the collection of social security tax from members of the clergy and religious workers, including:

- Which earnings are taxed under FICA and which are taxed under SECA,
- How to figure net earnings from self-employment, and
- How a member of the clergy (minister, member of religious order, or Christian Science practitioner) can apply for an exemption from self-employment tax.

A comprehensive example with filled-in forms, showing a minister having income that is taxed under FICA and SECA, is at the end of this publication.

Change of Address. If you change your mailing address, be sure to notify the Internal Revenue Service using Form 8822, *Change of Address*. Mail it to the Internal Revenue Service Center for your old address (addresses for the Service Centers are on the back of the form). If you are changing both your home and business addresses, you should complete two separate forms.

Free Publications and Forms

If you need information on a subject that is not in this publication, check our other free publications To order publications and forms, call our toll-free telephone number 1–800–829–FORM(3676) or write to the IRS Forms Distribution Center for your area as shown in the income tax package.

Social Security Coverage

The services you perform in the exercise of your ministry are covered by social security under SECA. Therefore, your earnings for these services are subject to self-employment tax unless either of the following apply:

You are a member of a religious order who has taken a vow of poverty.

You request and receive from the IRS an exemption from self-employment tax for the services. (See *Exemption from Self-Employment Tax*, later.)

Your earnings that are **not** from the exercise of your ministry may be subject to social security tax under FICA or SECA according to the rules that apply to workers in general. See *Qualified Services*, later.

Employment Status for Other Tax Purposes

Because of written law, you are considered a self-employed individual in performing your ministerial services for social security purposes. However, because of common law rules (discussed next), you may be considered an employee for other tax purposes.

Common law rules. Under these rules, you are considered an employee or a self-employed person depending on all the facts and circumstances. Generally, you are an employee if your employer has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action.

Example. A church hires and pays you to perform ministerial services for it, subject to its control. Under the common law rules, you are an employee of the church while performing those services. Your wages are reported on Form W–2 for income tax purposes, but no social security taxes are withheld. However, you are treated as self-employed for social security purposes. Therefore, you must pay self-employment tax on those wages yourself unless you request and receive an exemption from self-employment tax. **On Form W–2, box 12 for social security wages should be left blank.**

To find out if you are an employee or a self-employed person, you may get a determination from the IRS by filing Form SS–8, *Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding.*

Ministers

If you are a duly ordained, commissioned, or licensed minister of a church, your earnings for the services you perform in your capacity as a minister are subject to self-employment tax unless you have requested and received an exemption as discussed under *Exemption from Self-Employment Tax*, later. This is true whether you are an employee of your church or a self-employed person under the common law rules. For the specific services covered, see *Qualified Services*, discussed later.

Ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination.

If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for social security purposes.

Members of Religious Orders

If you are a member of a religious order who has not taken a vow of poverty, your earnings for required services you performed as a member of the order are subject to self-employment tax. This does not apply if you have requested and received an exemption as discussed under *Exemption from Self-Employment Tax*, later. To see which services are considered required, see *Qualified Services*, discussed later.

Vow of poverty. If you are a member of a religious order who has taken a vow of poverty, you are exempt from paying self-employment tax on your earnings for services you perform for your church or its agencies.

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If you are paid to perform services for an organization other than the church or its agencies, you are considered a regular employee of the organization and your earnings are subject to federal income tax withholding and social security tax. If you perform services for the church or its agencies, your earnings are treated as earnings of the church. You do not have to pay income tax or social security tax on these earnings.

Exception. If you have taken a vow of poverty, the services you perform for your church or its agencies may be covered under social security. Your services are covered if your order, or an autonomous subdivision of the order, elects social security coverage for its current and future vow-of-poverty members.

The order or subdivision elects coverage by filing Form SS–16, *Certificate of Election of Coverage*. It can elect coverage for certain vow-of-poverty members for a retroactive period of up to 20 calendar quarters before the quarter in which it files the certificate.

Lay employees. All lay employees are automatically covered by social security. But see *Election to exclude employees from social security coverage*, later, under *Religious Workers*.

Christian Science Practitioners and Readers

If you are a Christian Science practitioner, your earnings from services you performed in your profession as a Christian Science reader or practitioner are subject to self-employment tax unless you have requested and received an exemption as discussed under *Exemption from Self-Employment Tax*, later.

Christian Science practitioners are members in good standing of the Mother Church, The First Church of Christ Scientist, in Boston, Massachusetts, who practice healing according to the teachings of Christian Science. Christian Science practitioners are specifically exempted from licensing by state laws. Some Christian Science practitioners also are Christian Science teachers or lecturers. Income from teaching or lecturing is considered the same as income from their work as practitioners.

Christian Science readers are considered the same as ordained, commissioned, or licensed ministers.

Religious Workers

If you are a religious worker and are not in one of the classes already discussed, your wages are subject to social security (FICA) withholding and not to self-employment tax.

Election to exclude employees from social security coverage. Tax-exempt churches and church-controlled organizations can elect not to have their employees covered by FICA. These employees are covered under SECA and are responsible for paying self-employment taxes on their income.

Trade or business expenses are not subtracted in figuring this self-employment income.

Any employee (except a minister or member of a religious order) who received $100 or more in wages from any one electing church or church-controlled organization must complete Schedule SE (Form 1040), *Social Security Self-Employment Tax*. Use the short version of Schedule SE.

Revocation. The church or organization can revoke this election. The revocation is irrevocable. Also, the IRS can revoke the election if certain filing requirements for information returns are not met.

Employees and employers opposed to social security participation. If you and your employer (or, if your employer is a partnership, each partner) are members of a religious faith, or faiths, opposed to social security participation, you each can apply for exemption from the social security taxes imposed on wages. See *Exemption from FICA* later under *Members of Recognized Religious Sects*.

Employees of churches, etc., that choose not to pay social security taxes. Beginning with 1990, you may be able to choose to be exempt from social security taxes, including the self-employment (SECA) tax. You can make the choice if you are a member of a religious sect or division opposed to social security (see *Members of Recognized Religious Sects* later), and the church, or church-controlled nonprofit division, for which you work chose, for religious reasons, not to pay the employer's portion of the social security tax on wages. This exemption does not apply to your service, if any, as a minister of a church or as a member of a religious order.

You can make this choice by filing Form 4029. See *Form 4029* later under *Members of Recognized Religious Sects*.

U.S. Citizens, Resident and Nonresident Aliens

To be covered under the self-employment provisions, individuals not living in the United States generally must be citizens or resident aliens of the United States. Nonresident aliens are not covered under SECA.

To determine your alien status, see Publication 519, *U.S. Tax Guide for Aliens*.

Residents of Puerto Rico, the Virgin Islands, Guam, and American Samoa, who are not U.S. citizens, are not considered nonresident aliens for self-employment tax purposes. They are covered by social security, as discussed later under *Figuring Net Earnings from Self-Employment*.

Exemption from Self-Employment Tax

Ministers, members of religious orders who have not taken a vow of poverty, and Christian Science practitioners can request an exemption from self-employment tax. If your request is approved, the exemption only applies to earnings you receive for qualified services, discussed later. It does not apply to any other self-employment income. For the rules, see *Exemption Request*, next.

Members of religious orders who have taken a vow of poverty are exempt from paying self-employment tax, as discussed earlier. They do not have to request the exemption.

Members of a recognized religious sect or a division of it can also apply for an exemption from the self-employment tax. For the rules that apply to this exemption, see *Members of Recognized Religious Sects*, later.

If you elected before 1968 to be covered under social security for your ministerial services, you are still covered. You cannot be exempt from self-employment tax.

For a limited time, you could make an election to be covered by social security. You did this by filing Form 2031 for your 1986 or 1987 tax year. If you made this election, you cannot be exempt from self-employment tax.

Exemption Request

To claim the exemption from self-employment tax, you must:

1) File Form 4361, described next,
2) Be conscientiously opposed to public insurance because of your individual religious considerations (not because of your general conscience), or be opposed because of the principles of your religious denomination,
3) File for other than economic reasons,
4) Inform the ordaining, commissioning, or licensing body of your church or order that you are opposed to public insurance if you are a minister or a member of a religious order (other than a vow-of-poverty member),
5) Establish that the organization that ordained, commissioned, or licensed you, or your religious order, is a tax-exempt religious organization,
6) Establish that the organization is a church or a convention or association of churches, and
7) Sign and return the statement the IRS mails to you to verify that you are requesting an exemption based on the grounds listed on the statement.

Form 4361. If you did not previously elect to be covered under social security and wish to be exempt from self-employment tax, file Form 4361, *Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners*, in triplicate, to request exemption.

Form 4361 includes a statement certifying that you oppose, for your services as a member of the clergy, public (governmental) insurance for death, disability, old age, or retirement because of your conscience or religious principles. This includes insurance that helps pay for or provide services for medical care, and includes benefits from a system established by the Social Security Act.

The IRS will return to you a copy of the Form 4361 that you filed indicating whether your exemption has been approved.

When to file. File Form 4361 by the date your income tax return is due, including extensions, for the second tax year in which you have at least $400 in self-employment earnings, any part of which came from your services as a minister, a member of a religious order, or a Christian Science practitioner. These do not have to be consecutive tax years.

Example 1. Reverend Lawrence Jaeger, a clergyman ordained in 1990, has net earnings of $400 in 1990 and $500 in 1991. He has until April 15, 1992, to file his application for exemption. However, if Reverend Jaeger does not receive his exemption by April 15, 1991, his self-employment tax for 1990 is due by that date.

Example 2. Reverend Ted Wolfe has $300 in net earnings as a clergyman in 1990, but earned $400 in both 1989 and 1991. He has until April 15, 1992, to file his application for exemption. However, if he does not receive the exemption by April 16, 1990, he must pay his self-employment tax for 1989 by that date.

Example 3. In 1988 Reverend David Moss was ordained a minister and had $700 in net earnings as a minister. In 1989, he received $1,000 as a minister, but his related expenses were over $1,000. Therefore, he had no net earnings as a minister in 1989. Also in 1989, he opened a book store and had $8,000 in net self-employment earnings from the book store. In 1990 he had net earnings of $1,500 as a minister and $10,000 net self-employment earnings from the book store.

Because Reverend Moss had net earnings from self-employment in 1988 and 1990 that were more than $400 each year, and part of the earnings in

each of those years was for his services as a minister, he must file his application for exemption by the due date, including extensions, for his 1990 income tax return.

Death of individual. The right to file an application for exemption ends with an individual's death. Therefore, a surviving spouse, executor, or administrator cannot file an application for exemption for a deceased member of the clergy.

Effective date of exemption. An approved exemption is effective for all tax years after 1967 in which you have $400 or more of net earnings from self-employment, part of which is for services as a member of the clergy.

Example. Reverend Thomas Austin, ordained in 1989, has $450 in net earnings as a minister in both 1989 and 1990. He files an application for exemption on February 15, 1991. If an exemption is granted, it is effective for 1989 and the following years.

Refunds of self-employment tax paid. If you have overpaid self-employment tax, file a claim for refund on Form 1040X, *Amended U.S. Individual Income Tax Return*, before the statutory period ends. This is generally within 3 years from the date you filed the return or within 2 years from the date you paid the tax, whichever is later. A return you filed before the due date is considered to have been filed on the due date.

If you file a claim after the 3-year period but within 2 years from the time you paid the tax, the credit or refund will not be more than the tax you paid within the 2 years immediately before you file the claim.

Members of Recognized Religious Sects

If you are a member of a recognized religious sect, or a division of a recognized religious sect, you can apply for an exemption from self-employment tax on all of your self-employment income. If you received Social Security benefits or payments, or anyone else received these benefits or payments based on your wages or self-employment income, you cannot apply for this exemption.

Eligibility Requirements. To claim this exemption from self-employment tax, ***all*** the following requirements must be met.

1) File Form 4029, discussed next.
2) As a follower of the established teachings of the sect or division, you must be conscientiously opposed to accepting benefits of any ***private or public*** insurance that makes payments for death, disability, old age, retirement, or medical care, or provides services for medical care.
3) You must waive all rights to receive any Social Security payment or benefit and agree that no benefits or payments will be made based on your wages and self-employment income to anyone else.
4) The Secretary of Health and Human Services must determine that:
   a) Your sect or division has such established teachings,
   b) It is the practice, and has been for a substantial period of time, for members of the sect or division to provide for their dependent members in a manner that is reasonable in view of the members' general level of living, and
   c) The sect or division has existed at all times since December 31, 1950.

If you have previously received approval for exemption from self-employment tax, you are considered to have met the requirements and do not need to apply for this exemption.

Form 4029. To request the exemption, file Form 4029, *Application for Exemption From Social Security Taxes and Waiver of Benefits*, in triplicate, with the Social Security Administration at the address shown on the form. The sect or division must complete part of the form.

The IRS will return to you a copy of the Form 4029 that you filed indicating whether your exemption has been approved.

Effective date of exemption. You can file Form 4029 at any time. An approved exemption generally is effective for all tax years beginning after 1950. It does not apply to any tax year beginning before you meet the requirements, or the Secretary of Health and Human Services makes the determinations discussed earlier.

The exemption will end if you fail to meet the requirements or the Secretary determines that the sect or division fails to meet the requirements.

Refunds of self-employment tax paid. For information on requesting refunds, see the discussion under *Exemption Request*, earlier.

Exemption from FICA. Generally, under FICA, part of the Social Security tax is paid by the employee and the other part is paid by the employer. If you meet the requirements discussed earlier in this section, you can apply to be exempt from the employer's share of these taxes on employees whose exemptions have been approved. An employee meeting the requirements can apply to be exempt from his or her share of these taxes on the wages paid by an employer whose exemption has been approved. A partnership in which each partner holds a religious exemption from social security is an employer under this provision. This exemption applies to wages paid after 1986.

Information for employers. If you are an employer qualifying for this exemption, you are not required to report the wages of employees who also meet this exemption. A partnership in which each partner holds a religious exemption from social security is an employer for this purpose.

Do not include these wages on Form 941, *Employer's Quarterly Federal Tax Return*, or on Form 943, *Employer's Annual Tax Return for Agricultural Employees*. If you have received an approved Form 4029, write 'Form 4029' on Form 941 on the line for 'Taxable social security wages paid' to the left of the wage entry space. If you have received an approved Form 4029, and you are a Form 943 filer, write 'Form 4029' on the line for 'Taxable cash wages paid during the year' to the left of the wage entry space. When preparing a Form W-2 for a qualifying employee, write 'Form 4029' in the box for social security withheld.

If you have employees who do not have an approved Form 4029, you must withhold the employee share of social security tax and pay the employer's share.

Effective date. An approved exemption from FICA becomes effective on the first day of the first calendar quarter after the quarter in which Form 4029 is filed. The exemption will end in the calendar quarter before the quarter in which the employer, employee, sect, or division fails to meet the requirements.

Qualified Services

If you have an exemption from self-employment tax for earnings you receive for qualified services, the exemption applies only to the services performed in the exercise of your ministry. The exemption does not apply to any other self-employment income. If you do not have an exemption, amounts you receive for performing qualified services are subject to self-employment tax.

Ministers

Most services you perform as a minister, priest, rabbi, etc., are qualified services. These services include:

1) Performing sacerdotal functions,
2) Conducting religious worship, and
3) Controlling, conducting, and maintaining **religious organizations,** boards, societies, and other integral agencies that are under the authority of a religious body that is a church or denomination.

You are considered to control, conduct, or maintain a **religious organization** if you direct, manage, or promote the organization's activities. A religious organization is under the authority of a religious body that is a church or denomination if it is organized for and dedicated to carrying out the principles of a faith according to the requirements governing the creation of institutions of the faith.

Other services. Some services are not considered qualified services. Services for nonreligious organizations may be qualified services depending on all the facts and circumstances. And those that are not in the exercise of your ministry are not considered qualified services.

Services for nonreligious organizations. Your services for a nonreligious organization are qualified services if the services are assigned or designated by your church. Assigned or designated services qualify even if they do not involve performing sacerdotal functions or conducting religious worship.

Ordinarily, your services are not considered assigned or designated by your church if you are in any of the following categories:

1) You perform services for an organization that did not arrange with your church to receive them.
2) You perform the same services for an organization that other undesignated employees perform.
3) You perform the same services before and after the designation.

If your services are not assigned or designated by your church, they will be qualified services only if they involve performing sacerdotal functions or conducting religious worship.

Services that are not part of your ministry. The following are not qualified services. Your income from these services is generally subject to FICA taxes under the rules that apply to workers in general, not under SECA.

1) Services that you perform for nonreligious organizations other than the services stated earlier.
2) Services that you perform as a duly ordained, commissioned, or licensed minister of a church while employed by the United States, the District of Columbia, a foreign government, or any of their political subdivisions. This is true even if you are performing sacerdotal functions or conducting religious worship. (For example, if you perform services as a chaplain in the Armed Forces of the United States, the services are not qualified services.)
3) Services that you perform in a government-owned and operated hospital are considered performed by a government employee, not by a minister as part of the ministry. However, services that you perform at a church-related hospital or health and welfare institution are considered to be part of the ministry.

Books or articles. Writing religious books or articles is considered to be in the exercise of your ministry. Royalty income from the sale of books or articles is self-employment income.

Members of Religious Orders

Services you perform as a member of a religious order in the exercise of duties required by the order are qualified services. The services are qualified because you perform them as an agent of the order.

For example, if you are directed to perform services for another agency of the supervising church or an associated institution, you are considered to perform the services as an agent of the order.

However, if you are directed to work outside the order, the employment will not be considered a duty required by the order unless:

- Your services are the kind that are ordinarily performed by members of the order, and
- Your services are part of the duties that are required to be exercised for, or on behalf of, the religious order as its agent.

Ordinarily, services are not considered directed or required of you by the order if you and the party for whom you work are considered employer and employee. In this case, your earnings from the services are taxed under the rules that apply to workers in general, not under SECA. This is true even if you have taken a vow of poverty.

Example. Mark Brown and Elizabeth Green are members of a religious order and have taken vows of poverty. They renounce all claims to their earnings. The earnings belong to the order.

Mark is a licensed attorney. The superiors of the order instructed him to get a job with a law firm. Mark joined a law firm, as an employee of the firm, and, as he requested, the firm made the salary payments directly to the order.

Elizabeth is a secretary. The superiors of the order instructed her to accept a job with the business office of the church that supervises the order. Elizabeth took the job and gave all her earnings to the order.

Mark's services are not duties required by the order. His earnings are subject to federal income tax withholding and social security tax under FICA.

Elizabeth's services are considered duties required by the order. She is acting as an agent of the order and not as an employee of a third party. She does not include the earnings in gross income, and they are not subject to income tax withholding, social security tax, or self-employment tax.

Christian Science Practitioners and Readers

The exemption from self-employment tax, discussed earlier, applies only to the services a Christian Science practitioner or reader performs in the exercise of that profession.

Figuring Net Earnings from Self-Employment

Generally, net earnings from self-employment are the gross income from an individual's trade or business minus allowable business deductions.

If you have not received an exemption from self-employment tax, or are not automatically exempt, your net earnings from self-employment include the gross income earned from performing qualified services minus the deductions related to that income.

For more information on net earnings from self-employment, see Publication 533, *Self-Employment Tax.*

Gross income. To figure your net earnings from self-employment, include in gross income:

- Salaries and fees for your qualified services,
- Offerings you receive for marriages, baptisms, funerals, masses, etc. (Subtract from this income any deductions you reported on Schedule C (Form 1040) that are related to the income.)
- The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience. (Exclude these amounts from gross income for income tax purposes.)
- The fair rental value of a parsonage provided to you (including the cost of utilities that are furnished) and the rental allowance (including an amount for payment of utilities) paid to you.

If a church pays any amount toward income tax or self-employment tax that you owe, other than withholding the amount from your salary, it is income to you. You must include the amount in your gross income and self-employment income.

Example. Pastor Roger Adams receives an annual salary of $16,500 as a full-time minister. $1,500 of the salary is designated as a rental allowance to pay utilities. His church owns a parsonage that has a fair rental value of $5,200 per year. Pastor Adams is given the use of the parsonage. He is not exempt from self-employment tax. He must include $21,700, his salary including the rental allowance for utilities, and the fair rental value of the parsonage, to figure his net earnings for self-employment taxes.

The results would be the same if, instead of the use of the parsonage and receipt of the rental allowance for utilities, Pastor Adams had received an annual salary of $21,700, of which $6,700 per year was designated as a rental allowance.

However, for the income tax treatment of such amounts, see *Exclusion of rental allowance and fair rental value of a parsonage*, under *Income Tax Treatment of Certain Items*, later.

To figure your net earnings from self-employment, do not include in gross income:

- Offerings made to the church,
- Amounts contributed by your church to an annuity plan set up for you, including any salary reduction, that are not included in your gross income, and
- Pension payments or retirement allowances you receive for your past qualified services.

Overseas duty. Your net earnings from self-employment are determined without any foreign earned income exclusion or the foreign housing exclusion or deduction if you are a U.S. citizen or resident alien who is serving abroad and living in a foreign country.

Example. Paul Jones was the minister of a U.S. church in Saudi Arabia. He earned $22,000 and he was able to exclude it all because he qualified for the foreign earned income exclusion. However, self-employment tax must be computed without the exclusion. Mr. Jones would compute self-employment tax on $22,000.

For more information on excluding foreign earned income or the foreign housing amount, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad.*

Change of address. If you move, remember to notify the IRS on Form 8822, *Change of Address.*

Specified U.S. possessions. The exclusion from gross income for amounts derived in Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands does not apply in computing net earnings from self-employment.

Allowable deductions. To determine your net earnings from self-employment, deduct all your unreimbursed trade and business expenses that you incur in performing ministerial services as a common law employee of a church. However, you can only deduct 80% of unreimbursed meal and entertainment expenses.

When you figure your income tax, you must itemize your deductions on Schedule A (Form 1040) to claim your unreimbursed expenses. These are claimed as miscellaneous itemized deductions and are subject to the 2% of adjusted gross income limit. See Publication 529, *Miscellaneous Deductions*, for information on this limit.

Husband and Wife Missionary Team

If a husband and wife are both duly ordained, commissioned, or licensed ministers of a church and have an agreement that each will perform specific services for which they are paid jointly or separately, they must divide the self-employment income according to the agreement.

If the agreement is with one spouse only and the other spouse is not paid for any specific duties, amounts received for their services are included in only the self-employment income of the spouse having the agreement. If they already have filed a return and incorrectly divided the income for self-employment tax purposes, they should file an amended return, showing the entire amount as self-employment income of that spouse.

A minister-missionary's spouse who is not duly ordained, commissioned, or licensed as a minister of a church may file a claim for refund of any self-employment tax paid in error for any years for which the statutory period of limitation on refunds has not expired. This period is normally 3 years from the time the return was filed or 2 years from the time the tax was paid, whichever is later. The spouse's earnings, in this case, should not be included in the minister-missionary's self-employment income. If the minister-missionary's spouse receives pay for performing services for the organization, he or she may be an employee of the organization for social security purposes.

Maximum Earnings Subject to Self-Employment Tax

For 1990, the maximum self-employment income subject to social security tax is $51,300 minus any wages you earned that were subject to social security tax. For example, assume that you earned $5,000 in wages subject to social security tax during the tax year. Your income subject to self-employment tax could not be more than $46,300 ($51,300-$5,000).

Optional Methods for Figuring Net Earnings from Self–Employment

You may be able to use an optional method for figuring your net earnings from nonfarm self-employment. If you have net earnings from farm self-employment, you may use the farm optional method. If you have net earnings from both farm and nonfarm self-employment, you may qualify for both options. In general, the optional methods for figuring net earnings from self-employment are intended to permit continued coverage for social security self-employment tax purposes when your

income for the tax year is low. For more information on the farm optional method, see Publication 533, *Self-Employment tax.*

Nonfarm optional method. You may use the nonfarm optional method for self-employment income that is not from farming and only if you meet all the following tests:

- Your net earnings from nonfarm self-employment are less than $1,733.
- Your net earnings from nonfarm self-employment are less than two-thirds of your total gross income from nonfarm self-employment.
- You are self-employed on a regular basis. This means that your actual net earnings from self-employment are $400 or more in at least 2 of the 3 tax years before the one for which you use this method.
- You have not previously used this method more than 4 years (there is a 5 year lifetime limit).

If you meet these four tests, you may report the smaller of two-thirds of the gross income from your nonfarm business, or $1,600 as your net earnings from self-employment.

Income Tax Treatment of Certain Items

Some items are treated differently for income tax purposes than for self-employment tax purposes.

Exclusion of rental allowance and fair rental value of a parsonage. If you receive in your pay an amount officially designated as a rental allowance, you may exclude the allowance from your gross income if:

- The amount is used to provide or rent a home, and
- The amount is not more than reasonable pay for your services.

A rental allowance includes an amount to pay utility costs.

You can exclude from gross income ***the fair rental value*** of a house or parsonage, including utilities, furnished to you as part of your pay. However, the amount you can exclude cannot be more than the reasonable pay for your services. If you pay for the utilities, you can exclude from gross income any allowance designated for utility costs, up to your actual cost.

This exclusion applies only for income tax purposes. It does not apply for self-employment tax purposes, as discussed earlier under *Figuring Net Earnings From Self-Employment.*

This exclusion applies to ordained, commissioned, or licensed ministers of the gospel. The allowance must be provided as pay for your services, including:

- Qualified services, discussed earlier under *Ministers,*
- Administrative duties and teaching at theological seminaries, and
- The ordinary duties of a minister performed as an employee of the United States (other than as a chaplain in the Armed Forces), a state, possession, or political subdivision, or the District of Columbia.

Example. Reverend Amos Baker is a full-time minister at the Central Mission Church. The church allows him to use the parsonage that has an annual fair rental value of $4,800. The church pays him an annual salary of $13,200, of which $1,200 is designated for utility costs. During the year, his utility costs were $1,000.

For income tax purposes, Reverend Baker excludes $5,800 from gross income (the fair rental value of the parsonage plus $1,000 from the allowance for utility costs). He will report $12,200 ($12,000 salary and $200 of unused utility allowance). His income for self-employment tax, however, is $18,000 ($13,200 + $4,800).

Home ownership. If you own your home and you receive as part of your pay a housing or rental allowance, you may exclude from gross income the lowest of the following amounts:

- The amount actually used to provide a home,
- The amount officially designated as a rental allowance, or
- The fair rental value of the home, including furnishings, utilities, garage, etc.

You must include in gross income any rental allowance that is more than the lowest of your reasonable compensation, the fair rental value of the home plus utilities, or the amount actually used to provide a home.

You may deduct the home mortgage interest and real estate taxes you pay on your home even though all or part of the mortgage is paid with funds you get through a nontaxable rental or parsonage allowance.

Retired ministers. If you are a retired minister, you may exclude from your gross income the rental value of a residence (plus utilities) furnished to you by your church as a part of your compensation for past services, or the portion of your pension that was designated as a rental allowance. However, a minister's surviving spouse cannot exclude the rental value from gross income unless the amount is for services he or she performs or performed.

Health insurance costs of self-employed ministers. If you are self-employed, you may be able to deduct 25% of the amount you pay for medical insurance for yourself and your family as an adjustment to income on Form 1040. You may take this deduction even if you do not itemize deductions on Schedule A, Form 1040. However, your deduction cannot exceed your net earnings from the business under which the insurance plan is established. Also, the amount you deduct does not reduce your self-employment income.

As a common-law employee (discussed earlier) of the church, you are not considered to be a self-employed individual with respect to income from that employment. Do not include that income when determining if your deduction exceeds your net earnings.

You **cannot** take the deduction if you (or your spouse) are also an employee and can participate in a subsidized plan of your (or your spouse's) employer. For more information, see Publication 535, *Business Expenses.*

Living abroad. Certain income may be excluded from income if you work in a foreign country or in a specified U.S. possession. Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad,* discusses the foreign earned income exclusion. Publication 570, *Tax Guide for Individuals with Income from U.S. Possessions,* covers the rules for taxpayers in U.S. possessions. You may get these free publications from the Internal Revenue Service or from most U.S. Embassies or consulates.

Income tax withholding. If you are a duly ordained, commissioned, or licensed minister, a member of a religious order (who has not taken a vow of poverty), or a Christian Science practitioner, and you perform qualified services, your salary is subject to income tax but generally not federal income tax withholding. If your salary is not subject to withholding, you should make estimated tax payments to avoid penalties for not paying tax as you earn your income. For more information, see the discussion under *Payment of Estimated Tax,* later. If you perform your services as an employee of the church (under the common law rules), you may be able to have a voluntary withholding agreement with your employer, the church, to cover any income and self-employment tax that may be due.

Deduction for self-employment tax. Effective for tax years beginning ***after 1989,*** you can deduct one-half of the self-employment taxes you pay as a business expense in figuring adjusted gross income. This is an income tax deduction only, and you deduct it on line 25 of Form 1040. It is not a deduction in figuring net earnings from self-employment subject to self-employment tax.

Also effective for tax years beginning **after 1989,** a deduction of 7.65% of your net earnings from self-employment is taken when figuring your self-employment tax. This deduction is allowed only in figuring self-employment tax, and you figure it on line 4 of your Schedule SE. It is not an income tax deduction.

Filing Your Return

You must file an income tax return on Form 1040 if:

- You are not exempt from self-employment tax, and you have net earnings from self-employment (discussed earlier under *Figuring Net Earnings from Self-Employment)* of $400 or more in the tax year,
- You are exempt from self-employment tax on earnings from qualified services and you have $400 or more of other earnings subject to self-employment tax, or
- You had wages of $100 or more from an electing church or church-controlled organization (discussed earlier under *Religious Workers).*

For more information on filing your return, including when and where to file it, see the instructions for Form 1040.

Payment of Estimated Tax

Estimated tax is the method used to pay income and self-employment taxes (and other taxes you report on Form 1040 for income that is not subject to withholding, or for income from which not enough tax is withheld). Your estimated tax is your expected tax for the year minus your expected withholding and credits.

Generally, you must make estimated tax payments if your estimated tax for the year will be $500 or more.

Determine your estimated tax by using the worksheet in Form 1040–ES, *Estimated Tax for Individuals.* Then, using the Form 1040–ES payment-voucher, pay the entire estimated tax or the first installment by April 15, 1991. The April 15th date applies whether or not your tax home and your abode are outside the United States and Puerto Rico.

For more information on estimated tax, see Publication 505, *Tax Withholding and Estimated Tax.*

Retirement Savings Arrangements

Retirement plans for the self-employed. Ministers, members of religious orders, and Christian Science practitioners and readers treat their pay for qualified services as earnings from self-employment for social security purposes. However, this does not necessarily mean that they are self-employed for the purpose of participation in a qualified retirement plan ***(Keogh plan)*** or a ***simplified employee pension (SEP) plan*** that includes self-employed individuals. This is because, for purposes other than social security, the common law rules apply in determining whether you are an employee or a self-employed person. See *Employment Status for Other Tax Purposes*, earlier.

For example, if a minister performs services for a congregation for a salary, and is subject to its control, the minister is a common-law employee. The minister is not a self-employed person, even though for social security purposes his or her pay is counted when figuring net earnings from self-employment. On the other hand, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, are earnings from self-employment for all tax purposes.

For more information on establishing a Keogh (H.R.10) or a SEP plan, see Publication 560, *Retirement Plans for the Self-Employed.*

Individual retirement arrangements (IRAs). You generally are allowed to make contributions to your IRA of up to $2,000 or the amount of your pay, whichever is less. These contributions may be fully or partly deductible, or may be totally nondeductible, depending on your income, filing status, and whether you are covered by an employer retirement plan (including a Keogh or SEP plan).

For more information on setting up an IRA, see Publication 590, *Individual Retirement Arrangements (IRAs).*

Earned Income Credit

You may be entitled to a refundable credit of up to $953.40 if you have a child living with you in your main home in the United States for more than half the year and your earned income and your adjusted gross income (line 31, Form 1040) are each less than $20,264. The credit is subtracted from your tax. If the credit is more than your tax, the difference will be refunded to you. The instructions for Form 1040 contain a worksheet to help you figure the amount of credit you may take.

For more information on the credit, see Publication 596, *Earned Income Credit.*

Caution: Line 3c of the long version and line 3 of the short version of Schedule SE (Form 1040) include your salary from the church as well as the rental value of a parsonage or rental allowance provided by the church. Since you must enter these two amounts on line 1 of the Earned Income Credit Worksheet, do not enter them again on line 2 of the worksheet.

Comprehensive Example

Reverend Ted Michaels is the minister of the First United Church. He is married and has one child. Under the common law rules, he is a church employee. He has not applied for an exemption from self-employment tax. The church paid Reverend Michaels a salary of $29,600. While not a church employee, he earned $2,900 during the year for weddings, baptisms, and honoraria.

Reverend Michaels lives in the church's parsonage. It has a fair rental value of $400 a month and its utility bills averaged $80 a month. The church paid Reverend Michaels $100 a month designated as an allowance for utility costs.

The church does not withhold social security taxes or federal income taxes because Reverend Michaels has not requested it. However, the church reports his salary for income tax purposes on Form W–2, box 10, leaving blank the box for social security wages. The Form W–2 (box 10) that Reverend Michaels received from the church shows $29,600 as wages, tips, and other compensation. Reverend Michaels made estimated tax payments during the year totaling $8,500.

Reverend Michaels taught a course at a local college. He was paid $2,400, which was reported on Form W–2. The federal tax withheld was $350. As an employee of the college, Reverend Michaels is subject to social security withholding. His Form W–2 shows $195 withheld for this.

Form 1040. On Form 1040, Reverend Michaels reports $32,000 ($29,600 from the church and $2,400 from the college)on line 7 and $240 (the excess utility allowance over utility costs) on line 22. (The fair rental value of the parsonage is **not** included in income for income tax purposes.)

Deductions. Reverend Michaels contributed $4,800 in cash during the year to various qualifying charities. He can only deduct the $4,800 as an itemized deduction on Schedule A (Form 1040).

Reverend Michaels does not have enough deductions to itemize. Therefore, he uses the standard deduction.

Schedule C (Form 1040). On Schedule C Reverend Michaels reports the $2,900 from weddings, baptisms, and honoraria. His related expenses for the year were $87.00 for marriage and family booklets and $153.00 for 588 miles of business use of his car figured at the standard mileage rate of 26¢ a mile (mainly trips in connection with honoraria). His net profit of $2,660 is reported on line 12 of Form 1040.

Schedule SE (Form 1040). On Schedule SE, Reverend Michaels ***includes the fair rental value of the parsonage*** ($4,800) plus his salary from the church, his net income from Schedule C, and the entire $100 a month utility allowance. His net income of $38,260 should be reported on the short version of Schedule SE. After completing Schedule SE, Reverend Michaels computes the deduction for self-employment tax on line 25 of Form 1040.

1 Control number | OMB No. 1545-0008

2 Employer's name, address, and ZIP code
First United Church
1041 Main St.
Hometown, VA 22099

6 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

7 Allocated tips

8 Advance EIC payment

9 Federal income tax withheld

10 Wages, tips, other compensation
29,600.00

3 Employer's identification number
00-0246810

4 Employer's state I.D. number

11 Social security tax withheld

12 Social security wages

5 Employee's social security number
011-00-2222

13 Social security tips

14 Nonqualified plans

19 Employee's name, address and ZIP code
Ted E. Michaels
1040 Main St.
Hometown, VA 22099

15 Dependent care benefits

16 Fringe benefits incl. in Box 10

17

18 Other

20 | 21 | 22 | 23

24 State income tax	25 State wages, tips, etc.	26 Name of state	27 Local income tax	28 Local wages, tips, etc.	29 Name of locality

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—Internal Revenue Service

Form **W-2 Wage and Tax Statement 1990**

This information is being furnished to the Internal Revenue Service.

1 Control number | OMB No. 1545-0008

2 Employer's name, address, and ZIP code
Localis College
40 Honor Rd.
Hometown, VA 22099

6 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

7 Allocated tips

8 Advance EIC payment

9 Federal income tax withheld
350.00

10 Wages, tips, other compensation
2400.00

3 Employer's identification number
00-1357913

4 Employer's state I.D. number

11 Social security tax withheld
195.00

12 Social security wages
2400.00

5 Employee's social security number
011-00-2222

13 Social security tips

14 Nonqualified plans

19 Employee's name, address and ZIP code
Ted E. Michaels
1040 Main St.
Hometown, VA 22099

15 Dependent care benefits

16 Fringe benefits incl. in Box 10

17

18 Other

20 | 21 | 22 | 23

24 State income tax	25 State wages, tips, etc.	26 Name of state	27 Local income tax	28 Local wages, tips, etc.	29 Name of locality

Copy B To be filed with employee's FEDERAL tax return

Dept. of the Treasury—Internal Revenue Service

Form **W-2 Wage and Tax Statement 1990**

This information is being furnished to the Internal Revenue Service.

Form **1040** Department of the Treasury—Inte… **U.S. Individual Income Tax Return** **1990**

For the year Jan.–Dec. 31, 1990 or o…

Label (See Instructions on page 8.)

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: Ted E. | Last name: Michaels | Your social security number: 011 00 2222

If a joint return, spouse's first name: Susan K. | Last name: Michaels | Spouse's social security number: 001 00 1111

Home address (number and street): 1040 Main St | Apt. no.

City, town or post office, state, and: Hometown VA 22092

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign (See page 9.) ▶ Do you want $1 to go to th… — ✓ Yes — Yes

If joint return, does your s… fund? — ✓ Yes — Yes

Note: Checking "Yes" will not change your tax or reduce your refund.

Filing Status Check only one box.

1 ☐ Single. (See page …

2 ✓ Married filing joint … (even if only one had income)

3 ☐ Married filing separa… spouse's social security no. above and full name here. ▶

4 ☐ Head of househol… (with qualifying person). (See page 10.) If the qualifying person is a child but not your dependent, enter this child's n… here. ▶

5 ☐ Qualifying widow(… with dependent child (year spouse died ▶ 19). (See page 10.)

Exemptions (See Instructions on page 10.)

6a ✓ **Yourself** If your pare… (or someone else) can claim you as a dependent on his or her tax return, do n… not check box 6a. But be sure to check the box on line 33b on page 2

b ✓ **Spouse**

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 1	(3) If age 2 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1990
Robert O. Mich…		111 00 3333	Son	12

If more than 6 dependents, see Instructions on page 11.

d If your child didn't live with you … but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

No. of boxes checked on 6a and 6b: 2

No. of your children on 6c who:
- a lived with you: 1
- b didn't live with you due to divorce or separation (see page 11):
- No. of other dependents on 6c:

Add numbers entered on lines above ▶ 3

Income Attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 8.

Attach check or money order on top of any Forms W-2, W-2G, or W-2P.

7	Wages, salaries, tips, etc. (attach Form(s) W-2)	7	22,000
8a	**Taxable** interest income (attach Schedule B if over $400)	8a	
b	**Tax-exempt** interest income (see page 13). DON'T include on line 8a	8b	
9	Dividend income (also attach Schedule B if over $400)	9	
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 14	10	
11	Alimony received	11	
12	Business income or (loss) (attach Schedule C)	12	3,668
13	Capital gain or (loss) (attach Schedule D)	13	
14	Capital gain distributions not reported on line 13 (see page 14)	14	
15	Other gains or (losses) (attach Form 4797)	15	
16a	Total IRA distributions … 16a … b Taxable amount (see page 14)	16b	
17a	Total pensions and annuities … 17a … b Taxable amount (see page 14)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E)	18	
19	Farm income or (loss) (attach Schedule F)	19	
20	Unemployment compensation (insurance) (see page 16)	20	
21a	Social security benefits … 21a … b Taxable amount (see page 16)	21b	
22	Other income (list type and amount—see page 16) Excess Alimony Received	22	240
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	25,908

Adjustments to Income (See Instructions on page 17.)

24a	Your IRA deduction, from applicable worksheet on page 17 or 18	24a			
b	Spouse's IRA deduction, from applicable worksheet on page 17 or 18	24b			
25	One-half of self-employment tax (see page 18)	25	2,703		
26	Self-employed health insurance deduction, from worksheet on page 18	26			
27	Keogh retirement plan and self-employed SEP deduction	27			
28	Penalty on early withdrawal of savings	28			
29	Alimony paid. Recipient's SSN ▶	29			
30	Add lines 24a through 29. These are your **total adjustments** ▶			30	2,703

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this amount is less than $20,264 and a child lived with you, see page 23 to find out if you can claim the "Earned Income Credit" on line 57* ▶	31	23,197

	32	Amount from line 31 (adjusted gross income)	32	32,197
Tax Computation	33a	Check if: ☐ You were 65 or older ☐ Blind ☐ Spouse was 65 or older ☐ Blind. Add the number of boxes checked above and enter the total here ▶ 33a		
	b	If your parent (or someone else) can claim you as a dependent, check here ▶ 33b ☐		
If you want IRS to figure your tax, see instructions on page 19	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 19 and check here ▶ 33c ☐		
	34	Enter the larger of: • Your standard deduction (from the chart (or worksheet) on page 20 that applies to you), OR • Your itemized deductions (from Schedule A, line 27). If you itemize, attach Schedule A and check here ▶ ☐	34	5,450
	35	Subtract line 34 from line 32	35	26,747
	36	Multiply $2,050 by the total number of exemptions claimed on line 6e	36	6,150
	37	**Taxable income.** Subtract line 36 from line 35. (If line 36 is more than line 35, enter -0-.)	37	20,597
	38	Enter tax. Check if from: a ☑ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615 (see page 21). (If any is from Form(s) 8814, enter that amount here ▶ d ____)	38	3,086
	39	Additional taxes (see page 21). Check if from: a ☐ Form 4970 b ☐ Form 4972	39	
	40	Add lines 38 and 39 ▶	40	3,086
Credits (See instructions on page 21.)	41	Credit for child and dependent care expenses (attach Form 2441)	41	
	42	Credit for the elderly or the disabled (attach Schedule R)	42	
	43	Foreign tax credit (attach Form 1116)	43	
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) ____	44	
	45	Credit for prior year minimum tax (attach Form 8801)	45	
	46	Add lines 41 through 45	46	
	47	Subtract line 46 from line 40. (If line 46 is more than line 40, enter -0-.) ▶	47	3086
Other Taxes	48	Self-employment tax (attach Schedule SE)	48	5,406
	49	Alternative minimum tax (attach Form 6251)	49	
	50	Recapture taxes (see page 22). Check if from: a ☐ Form 4255 b ☐ Form 8611	50	
	51	Social security tax on tip income not reported to employer (attach Form 4137)	51	
	52	Tax on an IRA or a qualified retirement plan (attach Form 5329)	52	
	53	Advance earned income credit payments from Form W-2	53	
	54	Add lines 47 through 53. This is your **total tax** ▶	54	8,492
Payments Attach Forms W-2, W-2P, and 1099-R here	55	Federal income tax withheld (if any is from Form(s) 1099, check ▶ ☐)	55	750
	56	1990 estimated tax payments and amount applied from 1989 return	56	8,500
	57	Earned income credit (see page 23)	57	
	58	Amount paid with Form 4868 (extension request)	58	
	59	Excess social security tax and RRTA tax withheld (see page 24)	59	
	60	Credit for Federal tax on fuels (attach Form 4136)	60	
	61	Regulated investment company credit (attach Form 2439)	61	
	62	Add lines 55 through 61. These are your **total payments** ▶	62	9250
Refund or Amount You Owe	63	If line 62 is more than line 54, enter amount **OVERPAID**	63	758
	64	Amount of line 63 to be **REFUNDED TO YOU**	64	758
	65	Amount of line 63 to be **APPLIED TO YOUR 1991 ESTIMATED TAX** ▶ 65		
	66	If line 54 is more than line 62, enter **AMOUNT YOU OWE**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your name, address, social security number, daytime phone number, and "1990 Form 1040" on it.	66	
	67	Estimated tax penalty (see page 25) 67		

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Keep a copy of this return for your records.

Your signature ▶ Ted E. Michaels	Date 2/10/91	Your occupation Minister
Spouse's signature (if joint return, BOTH must sign) ▶ Susan R. Michaels	Date 2/10/91	Spouse's occupation Housewife

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐ / Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No. / ZIP code

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business
(Sole Proprietorship)

Partnerships, Joint Ventures, Etc., Must File Form 1065.

▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).

OMB No. 1545-0074

1990

Attachment Sequence No. 09

Name of proprietor: Ted E. Michaels

Social security number (SSN): 211 00 2222

A Principal business or profession, including product or service (see instructions): Minister

B Enter principal business code (from page 2) ▶ 8 7 7 1

C Business name and address (include suite or room no.) ▶ First United Church, 1041 Main St., Hometown, VA 22099

D Employer ID number (Not SSN)

E Accounting method: (1) ☑ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

F Method(s) used to value closing inventory: (1) ☐ Cost (2) ☐ Lower of cost or market (3) ☐ Other (attach explanation) (4) ☑ Does not apply (if checked, go to line H)

		Yes	No
G	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? (If "Yes," attach explanation.)		✓
H	Are you deducting expenses for business use of your home? (If "Yes," see instructions for limitations.)	✓	
I	Did you "materially participate" in the operation of this business during 1990? (If "No," see instructions for limitations on losses.)	✓	

J If this is the first Schedule C filed for this business, check here ▶ ☐

Part I Income

1	Gross receipts or sales. **Caution:** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see the instructions and check here ▶ ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1. Enter the result here	3	
4	Cost of goods sold (from line 38 on page 2)	4	
5	Subtract line 4 from line 3 and enter the **gross profit** here	5	
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see instructions) offerings for marriages, baptisms, honoraria	6	2,900
7	Add lines 5 and 6. This is your **gross income** ▶	7	2,900

Part II Expenses

8	Advertising	8		21	Repairs and maintenance	21	
9	Bad debts from sales or services (see instructions)	9		22	Supplies (not included in Part III)	22	
10	Car and truck expenses (attach Form 4562)	10	153	23	Taxes and licenses	23	
11	Commissions and fees	11		24	Travel, meals, and entertainment:		
12	Depletion	12		a	Travel	24a	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		b	Meals and entertainment		
14	Employee benefit programs (other than on line 19)	14		c	Enter 20% of line 24b subject to limitations (see instructions)		
15	Insurance (other than health)	15		d	Subtract line 24c from line 24b	24d	
16	Interest:			25	Utilities	25	
a	Mortgage (paid to banks, etc.)	16a		26	Wages (less jobs credit)	26	
b	Other	16b		27a	Other expenses (list type and amount): Offerings for family		
17	Legal and professional services	17					
18	Office expense	18					
19	Pension and profit-sharing plans	19					
20	Rent or lease (see instructions):						
a	Vehicles, machinery, and equip.	20a					
b	Other business property	20b		27b	Total other expenses	27b	87
28	Add amounts in columns for lines 8 through 27b. These are your **total expenses** ▶					28	240
29	**Net profit or (loss).** Subtract line 28 from line 7. If a profit, enter here and on Form 1040, line 12. Also enter the net profit on Schedule SE, line 2 (statutory employees, see instructions). If a loss, you MUST go on to line 30 (fiduciaries, see instructions)					29	2,660

30 If you have a loss, you MUST check the box that describes your investment in this activity (see instructions).
If you checked 30a, enter the loss on Form 1040, line 12, and Schedule SE, line 2 (statutory employees, see instructions). If you checked 30b, you MUST attach **Form 6198.**

30a ☐ All investment is at risk.
30b ☐ Some investment is not at risk.

SCHEDULE SE (Form 1040)
Department of the Treasury
Internal Revenue Service

Social Security Self-Employment Tax

▶ See Instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

OMB No. 1545-0074
1990
Attachment Sequence No. 17

Name of person with self-employment income (as shown on Form 1040)
Ted E. Nichols

Social security number of person with self-employment income ▶ 211 00 2323

Who Must File Schedule SE

You must file Schedule SE if:

- Your net earnings from self-employment were $400 or more; **OR**
- You were an employee of an electing church or church-controlled organization that paid you wages (church employee income) of $100 or more;

AND

- Your wages (subject to social security or railroad retirement tax) were less than $51,300.

Exception: If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner, AND you filed **Form 4361** and received IRS approval not to be taxed on those earnings, DO NOT file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 48.

For more information about Schedule SE, see the Instructions.

Note: *Most people can use the short Schedule SE on this page. But, you may have to use the longer Schedule SE on the back.*

Who MUST Use the Long Schedule SE (Section B)

You must use Section B if ANY of the following apply:

- You elect the "optional method" to figure your self-employment tax (see Section B, Part II, and the Instructions);
- You are a minister, member of a religious order, or Christian Science practitioner and you received IRS approval (from **Form 4361**) not to be taxed on your earnings from these sources, but you owe self-employment tax on other earnings;
- You had church employee income of $100 or more that was reported to you on Form W-2;
- You had tip income that is subject to social security tax, but you did not report those tips to your employer; OR
- You were a government employee with wages subject ONLY to the 1.45% Medicare part of the social security tax (Medicare qualified government wages) AND the total of **all** of your wages (subject to social security, railroad retirement, or the 1.45% Medicare tax) plus **all** your earnings subject to self-employment tax is **more** than $51,300.

Section A—Short Schedule SE (Read above to see if you must use the long Schedule SE on the back (Section B).)

1	Net farm profit or (loss) from Schedule F (Form 1040), line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1	
2	Net profit or (loss) from Schedule C (Form 1040), line 29, and Schedule K-1 (Form 1065), line 15a (other than farming). See Instructions for other income to report.	2	38,260 *
3	Combine lines 1 and 2. Enter the result	3	38,260
4	Multiply line 3 by .9235. Enter the result. If the result is less than $400, do not file this schedule; you do not owe self-employment tax ▶	4	35,333
5	Maximum amount of combined wages and self-employment earnings subject to social security or railroad retirement (tier 1) tax for 1990	5	$51,300 00
6	Total social security wages and tips (from Form(s) W-2) and railroad retirement compensation (tier 1). **Do not** include Medicare qualified government wages on this line	6	2,400
7	Subtract line 6 from line 5. Enter the result. If the result is zero or less, **do not** file this schedule; you do not owe self-employment tax ▶	7	48,900
8	Enter the **smaller** of line 4 or line 7	8	35,333
9	Rate of tax	9	x.153
10	**Self-employment tax.** If line 8 is $51,300, enter $7,848.90. Otherwise, multiply the amount on line 8 by the decimal amount on line 9 and enter the result. Also enter this amount on Form 1040, line 48 **Note:** *Also enter one-half of this amount on Form 1040, line 25.*	10	5,406

For Paperwork Reduction Act Notice, see Form 1040 Instructions. Schedule SE (Form 1040) 1990

* Church wages of $29,600, plus fair rental value of parsonage ($4,800), plus entire utility allowance ($1,200), plus net income from Schedule C ($2,660) = $38,260.

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